

**CALVIN TOWNSHIP**  
**CASS COUNTY, MICHIGAN**

**FINANCIAL REPORT**

**March 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CALVIN TOWNSHIP	County Cass
Fiscal Year End MARCH 31, 2006	Opinion Date DECEMBER 15, 2006	Date Audit Report Submitted to State DECEMBER 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

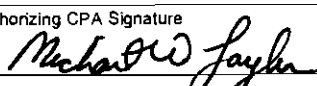
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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) SCHAFFER & LAYHER, PLLC		Telephone Number 269-983-0131	
Street Address 805 VAN BRUNT AVENUE		City ST. JOSEPH	State MI
		Zip 49085	
Authorizing CPA Signature 		Printed Name MICHAEL W. LAYHER	License Number 21500

## **TOWNSHIP BOARD**

Dwight Dyes

Supervisor

Leozie S. Broadnax

Clerk

Eddie Ballard

Treasurer

Keith Carter

Trustee

Adrienne D. Glover

Trustee

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Calvin Township

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Calvin Township (the "Township"), as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Calvin Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Calvin Township as of March 31, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and page 22 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Calvin Township's basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Schaffer &amp; Layher".

Schaffer & Layher  
December 15, 2006

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

### **Using this Annual Report**

This report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as whole and present longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

### **Financial Highlights**

- This Township's combined net assets increased \$46,484 or 2.8% from a year ago – increasing from \$1,673,101 to \$1,719,585.
- Total governmental fund revenues were \$390,244 and fund expenditures were \$335,494 for the current fiscal year.

### **Overview of the Financial Statements**

This report consists of four parts---*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Township government, reporting the Township's operations in more detail than the government-wide statements.
  - The *governmental funds statements* tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
  - *Fiduciary fund statements* provide information about the financial relationships, in which the Township acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required parts of the report, we have included a section with combining statements that provide details about our non-major governmental funds, which are added together and presented in single columns in the basic financial statements. The following table summarizes the major features of the Township's financial statements, including the portion of Township government they cover and the types of information they contain. The remainder of the overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Overview of the Financial Statements, Concluded**

Major Features of Calvin Township's Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Governmental Funds	Fiduciary Funds
Scope	Entire Township government (except fiduciary funds) and the Township's Component units.	The activities of the Township that are not proprietary or fiduciary, such as fire, ambulance and debt retirement	Instances in which the Township is the trustee or agent for someone else's resources, such as property tax collections.
Required Financial Statements.	> Statement of net assets >Statement of activities.	> Balance Sheet >Statement of revenues, expenditures, and changes in fund balances.	> Statement of fiduciary net assets >Statement of changes in fiduciary net assets.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both short-term and long-term; the Township's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information.	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

**Government-wide Statements**

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities, which is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and condition of the Township's infrastructure.

The government-wide financial statements of the Township include:

- Governmental activities—Most of the Township's basic services are included here, such as general government, public safety, public works, and recreation and culture.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Township's most significant funds—not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

**Fund Financial Statements, concluded**

- The Township Board establishes other funds to control and manage money for a particular purpose (i.e. weed control) or to show that it is properly using certain taxes and grants (i.e. ambulance, fire, and debt retirement).

The Township has the following two kinds of funds:

- *Governmental Funds*—Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary Funds*—The Township is the trustee, or fiduciary, for its property tax collections. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

**Financial Analysis Of The Township As A Whole**

The Township's combined net assets were \$1,719,585. In a condensed format the following table below shows a breakdown of the net assets:

	<u>Governmental Activities</u>
Current Assets	\$ 205,417
Capital Assets, net	2,040,518
<b>Total Assets</b>	<b>\$ 2,245,935</b>
Long-term debt outstanding	\$ 526,350
Other liabilities	-
<b>Total Liabilities</b>	<b>\$ 526,350</b>
Net Assets	
Invested in capital assets, net of related debt	\$ 1,514,168
Unrestricted	205,417
<b>Total Net Assets</b>	<b>\$ 1,719,585</b>

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$46,484 for the governmental activities. The current level of unrestricted net assets for governmental activities stands at \$205,417 or about 59.75% of expenditures. This is within the targeted range set by the Township Board during its last budget process.



**Financial Analysis of the Township as a Whole, concluded**

The following table shows the changes of the net assets as of the current date.

	<u>Governmental Activities</u>
Program Revenues	
Property Taxes	\$ 211,529
Licenses and Permits	28,179
Intergovernmental Revenues	138,490
Interest and Rentals	3,097
Miscellaneous Revenue	8,949
Total Revenues	<u>\$ 390,244</u>
 Program Expenses	
General Government	\$ 169,760
Public Safety	52,512
Public Works	19,605
Recreation and Culture	12,293
Other	20,304
Depreciation	52,536
Interest on Long-term debt	16,750
Total Expenses	<u>\$ 343,760</u>
Change in Net Assets	<u><u>\$ 46,484</u></u>

The Township's net assets continue to remain healthy. As a result, net assets grew by \$46,484.

**Governmental Activities**

The Township's total governmental revenues have increased slightly over last year, while expenses decreased during the year. This expense decrease was primarily due to the result of shifting public safety expenditures to a special revenue fund for new millages.

**The Township's Funds**

Our analysis of the Township's major funds begins on page 10 following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The Township's major funds for 2006 included the General and Debt Retirement Funds.

The General Fund pays for most of the Township's governmental services, including general government, public safety, and other. The most significant is general government, which incurred expenses of \$169,760 in fiscal 2006. The service is supported by general revenue sources of the General Fund.

**General Fund Budgetary Highlights**

Over the course of the year, the Township Board made no amendments to the budget.

**Capital Asset and Debt Administration**

At the end of March 31, 2006, the Township had investment in capital assets for its governmental activities of \$2,040,518 (net of depreciation). This investment includes a broad range of capital assets, including land, buildings and improvements, furniture and equipment. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statement because of Michigan law, which makes these roads property of the Berrien County Road Commission, along with the responsibility to maintain them. The Township anticipates little to no capital acquisitions for the next fiscal year.

**Long-Term Debt**

At the end of March 31, 2006, the Township had two outstanding bond issues totaling \$526,350. Series A bonds for the Diamond Lake sewer project funded through the Cass Area Utilities Authority, and other Special Assessment Bonds for the Paradise Lake sewer project.

**Economic Factors and Next Year's Budgets and Rates**

The Township anticipates revenue over expenditures in the governmental activities next year.

**Comparative Information**

The financial report does not show any comparative data, because the Township only prepares bi-annual audits in accordance with State law.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**March 31, 2006**

	Governmental Activities
<b>Assets</b>	
Cash and Cash Equivalents	\$ 167,249
Taxes Receivable	22,767
Internal Balances	15,401
Capital Assets, Net	2,040,518
Total Assets	<u>\$ 2,245,935</u>
<b>Liabilities</b>	
Accounts Payable	\$ -
Noncurrent Liabilities	-
Due Within One Year	44,270
Due in More Than One Year	482,080
Total Liabilities	<u>\$ 526,350</u>
<b>Net Assets</b>	
Invested in Capital Assets Net of Related Debt	\$ 1,514,168
Unrestricted	205,417
Total Net Assets	<u><u>\$ 1,719,585</u></u>

*The notes to the financial statements are an integral part of these statements.*

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**March 31, 2006**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Primary Government</b>				
<i>Governmental Activities</i>				
General Government	\$ 169,760	\$ 28,179	\$ -	\$ (141,581)
Public Safety	52,512	-	-	(52,512)
Public Works	19,605	-	-	(19,605)
Recreation and Culture	12,293	-	-	(12,293)
Other	20,304	-	-	(20,304)
Depreciation	52,536	-	-	(52,536)
Interest on Long-Term Debt	16,750	-	-	(16,750)
Total Governmental Activities	<u>\$ 343,760</u>	<u>\$ 28,179</u>	<u>\$ -</u>	<u>\$ (315,581)</u>
<b>General Revenues</b>				
Property Taxes				\$ 211,529
State Shared Revenues				138,490
Interest and Rentals				3,097
Miscellaneous				8,949
Total General Revenues				<u>\$ 362,065</u>
Change in Net Assets				<u>\$ 46,484</u>
Net Assets-Beginning of Year				<u>1,673,101</u>
Net Assets-Ending of Year				<u>\$ 1,719,585</u>

*The notes to the financial statements are an integral part of these statements.*

**GOVERNMENTAL FUND BALANCE SHEET**  
**March 31, 2006**

	General Fund	Paradise Lake Debt Service	Diamond Lake Debt Service	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 68,417	\$ 47,059	\$ 33,134	\$ 18,639	\$ 167,249
Taxes receivable	7,434	3,192	3,289	8,852	22,767
Due from fiduciary funds	15,401	-	-	-	15,401
<b>Total Assets</b>	<b>\$ 91,252</b>	<b>\$ 50,251</b>	<b>\$ 36,423</b>	<b>\$ 27,491</b>	<b>\$ 205,417</b>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Other current liabilities	-	-	-	-	-
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Fund Balance</b>					
Unreserved:					
Designated	\$ -	\$ -	\$ -	\$ -	\$ -
Undesignated	91,252	50,251	36,423	27,491	205,417
<b>Total Fund Equity</b>	<b>\$ 91,252</b>	<b>\$ 50,251</b>	<b>\$ 36,423</b>	<b>\$ 27,491</b>	<b>\$ 205,417</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 91,252</b>	<b>\$ 50,251</b>	<b>\$ 36,423</b>	<b>\$ 27,491</b>	
Amounts reported for governmental activities in the statement of net assets are different because:					
* Capital assets used in governmental activities are not financial resources and are not reported in the funds					2,040,518
* Long-term liabilities are not due and payable in the current period and are not reported in the funds.					(526,350)
<b>Net Assets of Governmental Activities</b>					<b>\$ 1,719,585</b>

*The notes to the financial statements are an integral part of these statements.*

**CALVIN TOWNSHIP**

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
March 31, 2006**

	General Fund	Paradise Lake Debt Service	Diamond Lake Debt Service	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 69,348	\$ 25,998	\$ 41,037	\$ 75,146	\$ 211,529
Licenses and Permits	28,179	-	-	-	28,179
Intergovernmental Revenue	138,490	-	-	-	138,490
Interest and rentals	2,488	238	371	-	3,097
Miscellaneous Revenues	8,949	-	-	-	8,949
Total Revenues	<u>\$ 247,454</u>	<u>\$ 26,236</u>	<u>\$ 41,408</u>	<u>\$ 75,146</u>	<u>\$ 390,244</u>
<b>Expenditures</b>					
Current					
General Government	\$ 167,801	\$ 1,959	\$ -	\$ -	\$ 169,760
Public Safety	1,630	-	-	50,882	52,512
Public Works	19,605	-	-	-	19,605
Recreation and Culture	5,858	-	-	6,435	12,293
Other	20,304	-	-	-	20,304
Debt Service	-	21,750	39,270	-	61,020
Capital Outlay	-	-	-	-	-
Total Expenditures	<u>\$ 215,198</u>	<u>\$ 23,709</u>	<u>\$ 39,270</u>	<u>\$ 57,317</u>	<u>\$ 335,494</u>
<b>Excess of Revenues Over Expenditures</b>	\$ 32,256	\$ 2,527	\$ 2,138	\$ 17,829	\$ 54,750
<b>Fund Balance-April 1, 2005</b>	58,996	47,724	34,285	9,662	
<b>Fund Balance-March 31, 2006</b>	<u>\$ 91,252</u>	<u>\$ 50,251</u>	<u>\$ 36,423</u>	<u>\$ 27,491</u>	

Amounts reported for governmental activities in the statement of activities are different because:

* Governmental funds report capital outlay as expenditures: in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	(52,536)
* Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	44,270
Change in Net Assets of Governmental Activities	<u>\$ 46,484</u>

*The notes to the financial statements are an integral part of these statements.*

**FIDUCIARY FUNDS – STATEMENT OF NET ASSETS  
March 31, 2006**

	<b><u>Agency Funds Property Tax Collection Fund</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ 30,296
Total Assets	<u>\$ 30,296</u>
<b>Liabilities</b>	
Due to other governmental funds:	
General Fund	\$ 15,401
Due to other governmental units	<u>14,895</u>
Total Liabilities	<u>\$ 30,296</u>

*The notes to the financial statements are an integral part of these statements.*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Calvin Township (the "Township") conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

**A. Reporting Entity**

The Township is governed by an elected five-member council (Board). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria are established under GASB #39 for which organizations is to be included in the reporting entity. See the following criteria and descriptions for the component units reported:

**Blended Component Units**—A blended component unit is a legally separate entity from the Township, but is so intertwined with the unit that is, in substance, the same as the Township. It is reported as part of the Township and blended into the appropriate fund types. There were no such units at March 31, 2006.

**Discretely Presented Component Units**—Component units are reported within the "component units" column in the government-wide financial statements. The discretely presented component unit is an entity that is legally separate from the Township, but for which the unit is financially accountable, or its relationship with the unit is such that exclusion would cause the unit's financial statements to be misleading or incomplete. There were no such units at March 31, 2006.

**Jointly Governed Organization**—The Township has no jointly governed organizations:

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.



**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED****B. Government-Wide and Fund Financial Statements, concluded**

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*The Township reports the following major governmental funds:*

**The General Fund** is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This is a budgeted fund.

**The Paradise Lake and Diamond Lake Debt Service Funds** are the Township's funds for the special assessment millage resources and the related debt service expenditures.

*Additionally, the government reports the following non-major fund types:*

Special Revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes, (i.e. Fire, Ambulance, and Weed Control.)

Fiduciary Funds are used to account for assets held by the Township in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government – wide statements. Agency Funds are custodial in nature (assets equal liabilities) and don't involve a measurement of result of operations.

**Agency Fund** – the Township presently maintains a Property Tax Collection Fund to record transactions of tax collections and disbursements for local taxing units within the Township. This fund is segregated and held in trust for the local unit until distributed.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation, concluded.**

they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issues prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**Property Taxes**--The Township's property taxes attach as an enforceable lien on December 1<sup>st</sup>, on the taxable valuation of property (as defined by State statutes) located in the Township and payable on February 15 of the succeeding year. The Township's 2005 ad valorem tax is levied and collectible on December 1, 2005 and it is recognized as revenue in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the Township totaled \$65,663,373 million, on which ad valorem taxes levied which consisted of .7274 mills for the Township's operating purposes. These amounts are recognized in the respective funds financial statements as current tax revenue.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**D. Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets—Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Township has chosen not to retroactively report any other infrastructure assets and will only report any additions prospectively in accordance with G.A.S.B. #34.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Land Improvements	10 to 20 years
Water and Sewer Lines	50 to 75 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**

**D. Assets, Liabilities, and Net Assets or Equity, concluded**

Compensated Absences (Vacation and Sick Leave)—The Township does not compensate employees for any absences (i.e. there are no vacation days or sick days.) As a result there is no liability with regards to vacation days.

Long-Term Obligations—In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of fund balance represent tentative management plans that are subject to change.

Estimates—The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at the fiscal year end. The Township Supervisor submits the proposed operating budget for the fiscal year commencing July 1<sup>st</sup> and public hearing are conducted to obtain taxpayer comments. After submission, the Township Board formally adopts the budget and any future transfers or amendments must be approved by the Township Board.

The budget document presents information by fund, function. The legal level of budgetary control adopted by the governing board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by July 1<sup>st</sup>. Expenditures in excess of the amounts budgeted is violation of P.A. 621 of 1978, Section 18(1) as amended. State law permits Townships to amend its budgets during the year. There were no amendments during the year.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONCLUDED**

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures over Appropriations in Major Budgeted Funds—during the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
General Government - Assessing Equalization	\$ 18,900	\$ 26,578	\$ (7,678)
General Government - Clerk	14,200	15,000	(800)
General Government - Inspection	10,000	22,842	(12,842)
General Government - Zoning Board	-	7,750	(7,750)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the Township.

Fund Deficits—The Township has no accumulated fund balance/retained earning deficits in their reported funds.

**NOTE 3. DEPOSITS AND INVESTMENTS**

At March 31, 2006, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Cash Equivalents	\$ 167,249	\$ 30,296
Certificate of deposits > 90 days	-	-
Total	<u>\$ 167,249</u>	<u>\$ 30,296</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts, C/D's)	\$ 167,249	\$ 30,296
Petty Cash and Cash on Hand	-	-
	<u>\$ 167,249</u>	<u>\$ 30,296</u>

**Bank Deposits:**

All cash of the Township is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

**NOTE 3. DEPOSITS AND INVESTMENTS, CONCLUDED**

**Custodial Credit Risk - Deposits:**

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, none of the Township's bank balance of \$167,155 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

**Investments:**

Michigan law permits investments in: 1) Bonds and other obligations of the United States Government; 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively; 3) Certain commercial paper; 4) United States Government repurchase agreements; 5) Banker's acceptance of the United States Bank; and 6) Certain mutual funds. The Township has put further restrictions on those investments through its current policy, with no current year investments.

**Interest rate risk:**

In accordance with its investment policy, the Township will minimize interest rate risk. The market value of securities in the portfolio will fall this risk due to changes in market interest rates, or by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations. This will help avoid the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

**Credit Risk:**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of March 31, 2006, the Township had no investments.

**Concentration of Credit Risk:**

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. As of March 31, 2006, the Township had no investments.

**Custodial Credit Risk – Investments:**

For an investment, this risk will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township will do business. As of March 31, 2006, the Township had no investments.

**Foreign Currency Risk:**

The Township is not authorized to invest in investments, which have this type of risk.

**NOTE 4. RECEIVABLES**

Receivables as of year-end for the Township's individual major, nonmajor, and fiduciary funds taken together, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Paradise Lake	Diamond Lake	Non Major Funds	Total
Taxes Receivable	\$ 7,434	\$ 3,192	\$ 3,289	\$ 8,852	\$ 22,767
Less: Allowance for Uncollectible	-	-	-	-	-
Net Receivables	<u>\$ 7,434</u>	<u>\$ 3,192</u>	<u>\$ 3,289</u>	<u>\$ 8,852</u>	<u>\$ 22,767</u>

**NOTE 5. CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Governmental Activities</i></b>				
Capital assets not being depreciated				
Land	<u>\$ 44,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,113</u>
Capital assets being depreciated				
Building	\$ 50,810	\$ -	\$ -	\$ 50,810
Furniture and Fixtures	9,362	-	-	9,362
Computers	4,662	-	-	4,662
Diamond Lake Sewer System	785,501	-	-	785,501
Paradise Lake Sewer System	1,315,976	-	-	1,315,976
Subtotal	<u>\$ 2,166,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,166,311</u>
Less Accumulated Depreciation	<u>(117,370)</u>	<u>(52,536)</u>	<u>-</u>	<u>(169,906)</u>
Net Capital Assets Being Depreciated	<u>\$ 2,048,941</u>	<u>\$ (52,536)</u>	<u>\$ -</u>	<u>\$ 1,996,405</u>
<b>Governmental activities total capital assets - net of depreciation</b>	<u>\$ 2,093,054</u>			<u>\$ 2,040,518</u>

Depreciation expense was not charged to programs of the governmental activities. The Township considers its assets to impact multiple activities and allocations are not practical.

**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**NOTE 6. LONG TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Series A Special Assessment Bond	2.00%	9/10/2010	\$ 235,620	\$ (39,270)	\$ 196,350	\$ 39,270
Special Assessment Bonds (Paradise Lake)	5.00%	2/1/1941	335,000	(5,000)	330,000	5,000
Total			<u>\$ 570,620</u>	<u>\$ (44,270)</u>	<u>\$ 526,350</u>	<u>\$ 44,270</u>

Interest expense of \$16,750 was not charged to programs of the governmental activities as the Township considers it to impact multiple activities.

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended March 31,	Governmental Activities	
	Principal	Interest
2007	\$ 44,270	\$ 20,427
2008	45,270	19,392
2009	45,270	18,306
2010	45,270	17,221
2011	46,270	16,135
2012-2016	37,000	71,450
2017-2021	43,000	61,600
2022-2026	48,000	50,350
2027-2031	52,000	38,000
2032-2036	60,000	24,000
2037-2041	60,000	9,000
Total	<u>\$ 526,350</u>	<u>\$ 345,881</u>



**NOTE 7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from other funds</b>		
General	Property Tax Collection	<u>\$ 15,401</u>

**NOTE 8. RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township carries insurance for these risks. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 9. OPERATING LEASES**

The Township did not have any operating or capital leases during the year.

**NOTE 10. SCHEDULE OF REVENUES AND EXPENDITURES FOR CONSTRUCTION ENFORCING AGENCIES**

The Township charges fees for the inspection of building electrical permits. These fees charged are not intended to recover the full cost of the enforcing agency and the related revenues and costs are tracked within the general fund. Pursuant to public Act 245 of 2002, the following schedule shows the breakdown of the related revenues and expenditures.

	<u>For the Period ended 3/31/06</u>
Revenues (Fee Charged)	\$ 28,179
Expenses	<u>22,842</u>
	<u>\$ 5,337</u>

## REQUIRED SUPPLEMENTAL INFORMATION

**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
March 31, 2006**

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance with Amended <u>Budget</u>
Beginning of Year Fund Balance	\$ 58,996	\$ 58,996	\$ 58,996	
<b>Resources(Inflows)</b>				
Taxes	\$ 70,000	\$ 70,000	\$ 69,348	\$ (652)
Licenses and Permits	40,000	40,000	28,179	(11,821)
Intergovernmental revenue	150,000	150,000	138,490	(11,510)
Interest and Rentals	-	-	2,488	2,488
Other Revenues	11,950	11,950	8,949	(3,001)
Operating Transfer In	-	-	-	-
Amounts Available for Appropriation	<u>\$ 271,950</u>	<u>\$ 271,950</u>	<u>\$ 247,454</u>	
<b>Charges to Appropriations(Outflows)</b>				
<b>General Government</b>				
Legislative	\$ 20,000	\$ 20,000	\$ 15,436	\$ 4,564
Supervisor	13,750	13,750	13,750	-
Elections	500	500	457	43
Assessing Equalization	18,900	18,900	26,578	(7,678)
Clerk	14,200	14,200	15,000	(800)
Board of Review	2,100	2,100	2,076	24
Treasurer	24,100	24,100	23,045	1,055
Building and grounds	27,300	27,300	23,457	3,843
Inspections	10,000	10,000	22,842	(12,842)
Planning Commission	2,100	2,100	2,050	50
Zoning Board	-	-	7,750	(7,750)
All other general government	16,000	16,000	15,360	640
<b>Public Safety</b>				
Ambulance	45,000	45,000	1,630	43,370
<b>Public Works</b>				
Public works, streets, highways, and lights	37,000	37,000	19,605	17,395
<b>Recreation and Culture</b>				
Parks and recreation	6,000	6,000	5,858	142
<b>Other</b>				
Fringes, Benefits, FICA, Insurance, etc.	35,000	35,000	20,304	14,696
Total Charges to Appropriations	<u>\$ 271,950</u>	<u>\$ 271,950</u>	<u>\$ 215,198</u>	
End of Year Fund Balance	<u>\$ 58,996</u>	<u>\$ 58,996</u>	<u>\$ 91,252</u>	

## OTHER SUPPLEMENTAL INFORMATION

**CALVIN TOWNSHIP****COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS****March 31, 2006**

	Fire <u>Fund</u>	Ambulance <u>Fund</u>	Weed Control <u>Fund</u>	Total Non-Major Governmental Funds
<b>Assets</b>				
Cash and Cash Equivalents	\$ 6,315	\$ 2,575	\$ 9,749	\$ 18,639
Taxes Receivable	4,592	3,782	478	8,852
Total Assets	<u>\$ 10,907</u>	<u>\$ 6,357</u>	<u>\$ 10,227</u>	<u>\$ 27,491</u>
<b>Liabilities and Fund Equity</b>				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to other governmental funds	-	-	-	-
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balance</b>				
Reserved	\$ 10,907	\$ 6,357	\$ 10,227	\$ 27,491
Unreserved:				
Undesignated	-	-	-	-
Total Fund Equity	<u>\$ 10,907</u>	<u>\$ 6,357</u>	<u>\$ 10,227</u>	<u>\$ 27,491</u>
Total Liabilities and Fund Equity	<u>\$ 10,907</u>	<u>\$ 6,357</u>	<u>\$ 10,227</u>	<u>\$ 27,491</u>

**CALVIN TOWNSHIP**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**March 31, 2006**

	Fire <u>Fund</u>	Ambulance <u>Fund</u>	Weed Control <u>Fund</u>	Total Non-Major Governmental <u>Funds</u>
<b>Revenues</b>				
Taxes and Penalties	\$ 37,373	\$ 30,773	\$ 7,000	\$ 75,146
Interest and Rentals	-	-	-	-
Other Revenues	-	-	-	-
Total Revenues	<u>\$ 37,373</u>	<u>\$ 30,773</u>	<u>\$ 7,000</u>	<u>\$ 75,146</u>
<b>Expenditures</b>				
Current				
General Government	\$ -	\$ -	\$ -	\$ -
Public Safety	26,466	24,416	-	50,882
Recreation and Culture	-	-	6,435	6,435
Capital Outlay	-	-	-	-
Total Expenditures	<u>\$ 26,466</u>	<u>\$ 24,416</u>	<u>\$ 6,435</u>	<u>\$ 57,317</u>
<b>Excess of Revenues Over Expenditures</b>	\$ 10,907	\$ 6,357	\$ 565	\$ 17,829
<b>Fund Balance-April 1, 2005</b>	-	-	9,662	9,662
<b>Fund Balance-March 31, 2006</b>	<u><u>\$ 10,907</u></u>	<u><u>\$ 6,357</u></u>	<u><u>\$ 10,227</u></u>	<u><u>\$ 27,491</u></u>



December 15, 2006

Calvin Township Board  
Cassopolis, MI

In planning and performing our audit of the financial statements of **Calvin Township (the "Township")** for the year ended March 31, 2006, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the Township and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Township personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Schaffer & Layher  
St. Joseph, MI

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

## **Comments and Recommendations**

### **Evaluating and Safeguarding Township Expenditures**

Fiduciary responsibilities are critical for every Township Board member, and in fact, are among an elected official's most important duties. Both individually and collectively, board members have responsibility for the Township's finances and for protecting the Township's assets.

To safeguard against improprieties and, even more simply, to ensure that the Township is operating lawfully and properly, every Township Board must have a strong accounting and financial reporting system in place. All expenditures must serve a valid public purpose and be authorized—either expressly or fairly implied—by law.

During our audit testing, we noted some expenditures that may be illegal (i.e. purchase of flowers for funerals). We recommend that the Township Board review the *Bulletin for Audits of Local Units of Government in Michigan, as revised Appendix H*. This will help determine if the expenditure is authorized by statute or that the Township is actually receiving value from the expenditure.

### **Township Documents Should Be Mailed and Kept at Township Offices**

During our cash testing procedures, we noted some bank statements and certificate of deposit mailings were being mailed directly to the homes of the Township officials. We recommend that all Township assets, including mail, be sent directly to the Township offices where they can be properly filed and stored.

### **Establish Investment Policy (MCL 129.91)**

During our audit procedures, we could not locate where the Township has established an investment policy in accordance with state statutes. We recommend a policy be immediately drafted and approved through resolution to give the Treasurer the guideline needed to ensure the Township funds are being invested properly. (See attachment #1.)

### **Set Budget in Compliance with Uniform Chart of Accounts**

The current general ledger and budgets for the Township are using accounts that do not follow the Uniform Chart of Accounts as issued by the Department of Treasury. We recommend that the Board review the Uniform Budget Manual and the accounting, budgeting, and auditing requirements contained in Public Act 2 of 1968, as amended, through Public Act 493 of 2000 to set budgets using the proper accounts.



*Establish Township Fixed Capitalization Policy*

With the adoption of G.A.S.B. 34 requirements, we recommend that the Township establish a capitalization policy to distinguish those assets that are repairs versus improvements. We have attached a sample policy that could be utilized and modified to meet the Township needs. (See attachment #2)

*Delinquent Distribution of Tax Collection (MCL 211.43)*

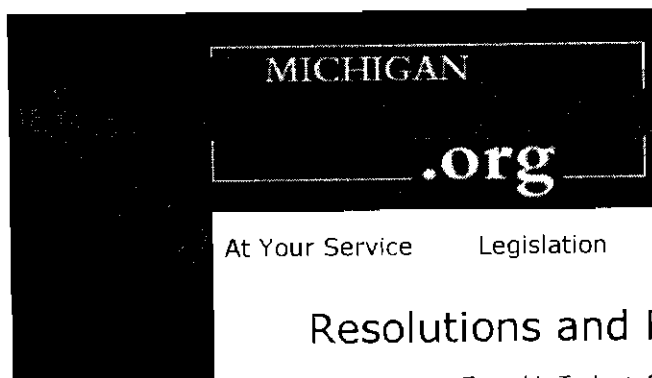
During our review of tax collections and disbursements, we noted the Treasurer was delinquent, per statute, in distributing tax revenues collected for another taxing unit. The Township has a fiduciary responsibility to those units to make timely remittances of the monies collected on their behalf and should look to establish procedures that enable the tax revenues collected be paid to the taxing units with the established guidelines.

In addition, interest earned in the tax collection fund belongs proportionately to the units to which the tax collections are distributed, and the Treasurer should calculate and distribute the interest to the respective taxing units as well. See 1988 Attorney General Opinion 6489. (See attachment #3)

*Reconcile Bank Accounts on a Timely Basis*

Bank statements are being received by the Township Treasurer, but no evidence could be found they are being reconciled on a timely basis. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements by the appropriate Township official. As the Township uses a manual accounting system and only one set of ledgers is prepared, another Township official should independently review and approve the reconciliation after it has been completed.

Attachments


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## Resolutions and Policies

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512 Westshire Dr.  
Lansing, MI 48917  
P: 517.321.6467  
F: 517.321.8908

Click the links  
below to find out  
more information:



## Investment and Depository Resolutions

### 1. Township Investment and Depository Designation Resolution Comprehensive Version

*The following sample resolution is intended for townships that prefer a comprehensive investment policy allowing for a broad range of investment instruments and substantial delegation of discretion and responsibility to the township treasurer.*

*Township boards should not adopt any sample investment resolution, including those provided by MTA, without careful consideration of investment public policy options and potential consequences. The provisions provided here are intended to illustrate the subjects areas that an investment and depository designation resolution might address, as well as sample resolution language. MTA does not intend to indicate that the provisions provided are appropriate for all townships. In consultation with the township treasurer, the board should carefully develop its goals for safety, diversification, liquidity and return on investment, as well as the degree of oversight the board believes it should exercise over investments. The policy adopted by a township board should reflect its specific investment goals and governance style.*

*In drafting a township policy, please consult your local attorney or certified public accountant.*

WHEREAS, the Board of \_\_\_\_\_ Township, \_\_\_\_\_ County, in exercising its fiduciary responsibilities desires to safeguard the funds of the Township that may be invested from time to time, and

WHEREAS, Public Act 77 of 1989, MCL 41.77 requires that the Township Board designate the banks or depositories for the money belonging to the Township, including the time for which the deposits shall be made and all

details for carrying into effect the authority given in this act, and

WHEREAS, Public Act 196 of 1997, MCL 129.91, *et seq.*, requires township boards, in consultation with the Township Treasurer, to adopt an investment policy, now

THEREFORE BE IT RESOLVED, That this policy is applicable to all public funds belonging to \_\_\_\_\_ Township and in the custody of the Township Treasurer.

BE IT FURTHER RESOLVED, That the \_\_\_\_\_ Township Treasurer is authorized to manage funds belonging to the township, including depositing funds in approved financial institutions and administration of investments in conformance with MCL 41.77 and policies as set forth in this resolution.

BE IT FURTHER RESOLVED, That the Board approves the following financial institutions as depositories of township funds: *(insert list of approved financial institutions)*.

BE IT FURTHER RESOLVED, That the Treasurer shall recommend financial institutions for approval for the safekeeping of Township funds based on an evaluation of the performance and solvency of the institution, as well as past performance in exercising due care and prudence in managing the custody of Township funds held in trust, if applicable. The Treasurer shall periodically evaluate approved and potential financial depositories and shall make recommendations as to appropriate changes in approved depositories when warranted.

In determining safekeeping and custody qualifications, financial institutions document a minimum capital requirement of at least \$10,000,000 and at least five years of operation. All financial institutions and brokers/dealers shall be pre-qualified by supplying the following:

- Audited financial statements
- Proof of NASD certification or FDIC insurance
- Proof of state registration
- Certification of having read, understood and agreement to comply with the \_\_\_\_\_ Township investment policy.

The Treasurer shall annually examine the financial condition and registrations of qualified financial institutions and brokers/dealers by obtaining annual updates of the information listed above.

BE IT FURTHER RESOLVED, That when the Treasurer's analysis of the Township's cash flow requirements reveal that surplus funds will not be

required to meet current expenditures for a specific length of time, the Treasurer is authorized to make prudent investments for a length of time that will provide a reasonable return on investment yet ensure that such funds will be available when needed and will not be exposed to undue risk. The Treasurer is authorized to invest township funds in the following instruments: *(select from among the list of lawful investments authorized under MCL 129.91)*

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
  - (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
  - (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
  - (d) Repurchase agreements consisting of instruments listed in subdivision (a).
  - (e) Bankers' acceptances of United States banks.
  - (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
  - (g) Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
    - (i) The purchase of securities on a when-issued or delayed delivery basis.
    - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
    - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
  - (h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, Public Act 7 of 1967, (*Ex Sess*), MCL 124.501, *et seq.*
  - (i) Investment pools organized under the Surplus Funds Investment Pool Act, Public Act 367 of 1982, MCL 129.111, *et seq.*
  - (j) The investment pools organized under the Local Government Investment Pool Act, Public Act 121 of 1985, MCL 129.141, *et seq.*
- \*(if the policy authorizes investments in mutual funds, include the following): Investments in mutual funds (select either a or b) (a) shall be*

limited to securities whose intention is to maintain a net asset value of \$1.00 per share. or (b) shall include securities whose net asset value per share may fluctuate on a periodic basis.

*The following paragraph is optional. A provision similar to the following may be desired by the township board if it wishes to require the Treasurer to obtain specific prior approval from the Township Board of certain investment instruments prior to making the investment.*

BE IT FURTHER RESOLVED, the Township Board may, at its discretion and upon the recommendation of the Township Treasurer, authorize the Township Treasurer to invest in the following investment instruments. However, the Township Treasurer is required to obtain approval from the Township Board prior to acquiring or increasing the amount of Township funds in the following investment instruments: *(list lawful investment instruments that require prior board approval prior to the initial purchase and or to increase the amount of Township funds invested in such instruments)*

BE IT FURTHER RESOLVED, That the objectives of this policy are to:

- maintain safety of principal of township funds;
- maintain a diversified investment portfolio;
- maintain adequate liquidity; and
- achieve a market rate of return on relatively safe investment instruments.

To accomplish these objectives, decisions and actions involving the Township's investment portfolio shall meet the following criteria:

**Safety:** Safety of principal is the foremost objective of \_\_\_\_\_ Township's investment practices. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall investment portfolio. The Treasurer shall minimize credit risk by investing only in the safer types of securities, pre-qualifying financial institutions, brokers/dealers, intermediaries, and advisers with whom the township will do business; and diversifying the investment portfolio so that the impact on the investment portfolio resulting from losses on individual securities will be minimized.

**Diversification:** The investments shall be diversified by avoiding over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities). Investments shall have varying maturities. Investment instrument selection shall avoid high credit risks and shall include use of readily available funds such as local government investment pools or mutual funds to maintain sufficient liquidity.

**Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Securities shall have maturity dates concurrent with cash flow needs. Securities with active secondary or resale markets, as well as money market mutual funds offering same-day liquidity for short-term funds shall also be used to ensure liquidity. The Treasurer shall minimize interest rate risk by avoiding the need to sell securities prior to maturity and investing operating funds primarily in short term-securities, money market mutual funds or similar public investment pools. Securities shall not normally be sold prior to maturity except to minimize loss of principal; to improve the quality, yield or target duration in the portfolio; or to meet liquidity needs.

**Return on Investment:** The investment portfolio shall be designed to attain a market average rate of return during budgetary and economic cycles while taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity objectives. The core of investments is limited to relatively low risk securities, and a fair rate of return relative to risk is assumed.

BE IT FURTHER RESOLVED, That the Treasurer shall make such investments and only such investments as a prudent person would make in dealing with the property of another, having in view the preservation of the principal and the amount and regularity of the income to be derived.

The standard of prudence to be used shall be the "fiduciary" standard and shall be applied in context of managing an overall portfolio.

BE IT FURTHER RESOLVED, The Treasurer may elect to have certificates and other evidence of investments held by a financial institution, provided that the financial institution presents to the Township Treasurer sufficient documentation and acknowledgment of the investment instruments held on behalf of the Township.

BE IT FURTHER RESOLVED, That the Treasurer shall refrain from personal business activity that could conflict with the proper execution and management of township investments, or that could impair the Treasurer's ability to make impartial investment decisions.

BE IT FURTHER RESOLVED, That the Treasurer shall annually provide a written report to the Township Board concerning the investment of Township funds.

BE IT FURTHER RESOLVED, That the Township shall comply with all applicable statutory standards for investment of public funds as they now exist or as they may be subsequently amended. Any provision of this resolution that conflicts with applicable statutory requirements and standards is void.

*Updated April 1, 1998*

*Adapted from GFOA Sample Investment Policy, revised 8/97, copyright 1997 Government Finance Officers Association. Used with permission.*

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## **2. Township Investment and Depository Designation Resolution Simplified Version**

*The following sample resolution is intended for townships that prefer a very basic investment policy consisting primarily of certificates of deposit. The policies provide minimal delegation of discretion and responsibility to the township treasurer.*

*Township boards should not adopt any sample investment resolution, including those provided by MTA, without careful consideration of investment public policy options and potential consequences. The provisions provided here are intended to illustrate the basic subjects areas that an investment and depository designation resolution might address, as well as sample resolution language. MTA does not intend to indicate that the provisions provided are appropriate for all townships. In consultation with the township treasurer, the board should carefully develop its goals for safety, diversification, liquidity and return on investment, as well as the degree of oversight the board believes it should exercise over investments. The policy adopted by a township board should reflect its specific investment goals and governance style.*

*In drafting a township policy, please consult your local attorney or certified public accountant.*

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WHEREAS, the Board of \_\_\_\_\_ Township, \_\_\_\_\_ County, in exercising its fiduciary responsibilities desires to safeguard the funds of the Township that may be invested from time to time, and

WHEREAS, Public Act 77 of 1989, MCL 41.77, requires that the Township Board designate the banks or depositories for the money belonging to the

Township, including the time for which the deposits shall be made and all details for carrying into effect the authority given in this act, and

WHEREAS, Public Act 196 of 1997, MCL 129.91, *et seq.*, requires Townships Boards, in consultation with the Township Treasurer, to adopt an investment policy, now

THEREFORE BE IT RESOLVED, That this policy is applicable to all public funds belonging to \_\_\_\_\_ Township and in the custody of the Township Treasurer.

BE IT RESOLVED, That the Board approves the following financial institutions as depositories of township funds: (*insert list of approved financial institutions*).

BE IT FURTHER RESOLVED, That the Treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meeting all criteria as a depository of public funds contained in state law. The standard of prudence to be used shall be the "fiduciary" standard and shall be applied in context of managing an overall portfolio.

BE IT FURTHER RESOLVED, That the prior approval of the Township Board, shall be required for the Treasurer to invest in any other lawful investment instruments. The Township Board's standard of prudence shall be the "fiduciary" standard, which shall be applied in context of managing an overall portfolio. The Township Board may authorize the Treasurer to invest in the following:

(a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

(b) Repurchase agreements consisting of instruments listed in subdivision (a).

(c) Bankers' acceptances of United States banks.

(d) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

(e) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual



fund is not disqualified as a permissible investment solely by reason of either of the following:

(i) The purchase of securities on a when-issued or delayed delivery basis.

(ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.

(iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

(f) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, Public Act 7 of 1967 (*Ex Sess*), MCL 124.501, *et seq.*

(g) Investment pools organized under the Surplus Funds Investment Pool Act, Public Act 367 of 1982, MCL 129.111, *et seq.*

(h) The investment pools organized under the Local Government Investment Pool Act, Public Act 121 of 1985, MCL 129.141, *et seq.*

BE IT FURTHER RESOLVED, That decisions and actions involving the Township's investment portfolio shall be meet the following criteria:

**Safety:** Safety of principle is the foremost objective of \_\_\_\_\_Township's investment practices.

Diversification: The investments shall be diversified by avoiding over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities and insured certificates of deposits).

**Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

**Return on Investment:** Return of investment is of secondary importance compared to safety and liquidity objectives. Investments shall be selected to obtain a market average rate of return. The core of investments is limited to relatively low risk securities.

BE IT FURTHER RESOLVED, That the Treasurer may elect to have certificates and other evidence of investments held by a financial institution, provided that the financial institution presents to the Township Treasurer sufficient documentation and acknowledgment of the investment instruments held on behalf of the Township.

BE IT FURTHER RESOLVED, That the Township will comply with all applicable statutes related to public fund investments. Any provisions of this resolution in conflict with applicable statutes is void.

*Updated April, 1998*

This page last updated on 9/14/2005.

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## Sample Fixed Asset Capitalization Policy

### TOWNSHIP OF \_\_\_\_\_ FIXED ASSET CAPITALIZATION POLICY

Adopted: \_\_\_\_\_ 20\_\_

The Township of \_\_\_\_\_ will regard fixed assets as capitalized when all of the following criteria are met:

- (1) Assets purchased, built or leased have useful lives of one year or more.
- (2) The cost of the asset (including installation) is \$5,000 or more (*insert figure appropriate to township*). Multiple assets whose cost is less than \$5,000 but the aggregate requestor total is \$5,000 or more are capitalized.
- (3) The cost of repairing or renovating the asset is \$5,000 or more and prolongs the life of the asset.

The township will regard the purchase software programs as fixed assets subject to the above capitalization policy, and will amortize over an estimated useful life of 3 years. Costs associated with software maintenance and customer support are considered expenditures and will not be capitalized.

#### Other Considerations:

- (1) REPAIR is an expenditure that keeps the property in ordinary efficient operating condition. The cost of the repair does not add to the value or prolong the life of the asset. All repair expenditures are charged to the appropriate department and fund.
- (2) IMPROVEMENTS are expenditures for additions, alterations and renovations that appreciably prolong the life of the asset, materially increase its value or adapt it to a different use. Improvements of the nature are capitalized.

### Examples of Repairs vs. Improvements

#### Repairs = Expenditures

All items—life less than one year  
All items under \$5,000  
Property maintenance, wall repair  
Replacement of machine parts to keep machine in normal operating condition  
Property restoration (rebuilding) for normal operations  
Existing building repairs  
Replacement of small sections of wiring, pipes or light fixtures  
Patching walls, minor repair of floors, painting, etc.  
Patching driveways  
Cleaning drapery, carpet, furniture

#### Improvements = Capitalized Assets

Life of more than one year  
All items \$5,000 or more  
Property rebuilding  
Replacement of motor and parts that prolong the useful life  
Property restoration for something different or better  
Building regulation conformity  
Major replacement of wiring, lighting, pipes or sewer  
Installation of floor, wall, roof, wall-covering, etc.  
New driveway or major repair  
New drapery, carpets, furniture

**Depreciation Method—Straight Line over the following useful lives:**

Buildings	40-60 years
Building Improvement	15-30 years
Water and Sewer Lines	50-75 years
Roads	10-30 years, see State Recommendations attached
Infrastructure	See State Recommendations attached
Vehicles	3-5 years
Office Equipment	3-5 years
Computer Equipment	3-5 years

*(Sample prepared by David Williamson, CPA, Post, Smythe, Lutz & Ziel, LLP, and MTA Staff. Used with permission.)*

Noncompliance on Delinquent Distribution of Tax Collections (MCL 211.43)

Failure to meet the following schedule for distribution of tax collections constitutes delinquent distribution. Noncompliance with the following should be reported in the letter of comments and recommendations.

A) Units with SEV of more than \$15,000,000

- 1) Within 10 business days after the 1st and 15th day of each month, account for and deliver tax collections (on hand) on the 1st and 15th day of each month; and
- 2) Within 10 business days after the last day of February, account for and deliver at least 90 percent of the tax collections (on hand) on the last day of February; and
- 3) A final adjustment and delivery of the total amount of tax collections (on hand) shall be made not later than April 1 of each year; or
- 4) The local unit may enter into an agreement with tax assessing units to establish an alternative schedule for delivering tax collections.

B) Units of SEV of \$15,000,000 or less

- 1) Within 10 business days after January 10, account for and deliver tax collections (on hand) through January 10. However, when tax collections (on hand) exceed 25 percent of the taxes apportioned, account for and turn in the total amount of taxes (on hand).
- 2) Within 10 business days after the last day of February, account for and deliver at least 90 percent of the tax collections (on hand) on the last day of February; and
- 3) A final adjustment and delivery of the total amount of tax collections (on hand) shall be made not later than April 1 of each year; or
- 4) The local unit may enter into an agreement to establish an alternative schedule for delivering tax collections.
- 5) For enhanced internal control, it is recommended but not legally required, that for tax collections (on hand) distributed the last day of each month within 10 business days.

**APPENDIX C**

6. If there is no agreement with the schools, county, etc., how is the interest earned on the tax collection bank account distributed?

1988 Attorney General Opinion 6489 states that interest earned on school taxes while in the possession of a local belongs to the school district. Absent an agreement to the contrary, interest earned in the tax collection fund below proportionately to the units to which the tax collections are distributed.